

AUG 14 2014

FCC Mail Room



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REDACTED FOR PUBLIC INSPECTION**VIA OVERNIGHT DELIVERY**

August 13, 2014

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, S.W.
Washington, D.C. 20554

RE: WC Docket Nos. 10-90 and 11-42
Revised Attachment to FCC Form 481 for Conneaut Telephone Company

Dear Ms. Dortch:

On behalf of Conneaut Telephone Company (the Company), attached is a copy of the audited financial information required by section 3005 of the FCC Form 481. At the time the Form 481 was due, the Company's financial audit was in progress. We were directed by the Universal Service Administrative Company (USAC) to attach the Company's unaudited financial statement to the Form 481 and certify the filing before the July 1 deadline. USAC further directed the Company to submit the final audited financial statement through USAC's E-File system upon completion of the audit. The final audited financial statement has been submitted through USAC's E-file system.

The Company maintains that the financial information is confidential and is submitting through ECFS a redacted document in WC Docket Nos. 10-90 and 11-42.

The Company, by its authorized representative, hereby submits confidential information pursuant to 47 C.F.R. §54.313(f)(2), under seal, subject to the Protective Order adopted November 16, 2012 in the above-named dockets.¹ The Company is providing to the Office of the Secretary the original and one copy of the cover letter and confidential information for WC Docket No. 10-90. The confidential information relates only to WC Docket No. 10-90. There is no claim of confidentiality for any information related to WC Docket No. 11-42.

¹ FCC Record DA 12-1857

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Ms. Marlene Dortch
August 13, 2014
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Two copies of this cover letter and confidential information are also being delivered to Mr. Charles Tyler, Telecommunications Access Policy Division, Wireline Competition Bureau, in accordance with the Protective Order.

This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions except for the confidentiality markings.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynette Hampton". The signature is written in a cursive, flowing style.

Lynette Hampton
Authorized Representative for
Conneaut Telephone Company

LH

Enclosures

cc: Mr. Charles Tyler, Telecommunications Access Policy Division, Wireline Competition Bureau, Federal Communications Commission, (2 hardcopies of non-redacted submission)

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THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION

Years Ended December 31, 2013 and 2012

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

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Demarchi & Associates

Certified Public Accountants

925 Euclid Avenue - Suite 636

Cleveland, Ohio 44115-1405

Phone (216) 241-6975

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Independent Auditors' Report

Board of Directors
The Conneaut Telephone Company
Conneaut, Ohio

We have audited the accompanying consolidated balance sheets of THE CONNEAUT TELEPHONE COMPANY and its wholly owned subsidiary, Cable Suite 541, Inc., as of December 31, 2013, and 2012, and the related consolidated statements of income, retained earnings, and cash flows and accompanying schedules, for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of the Ohio RSA 3 limited partnership, in which the Company owns a minority interest. The Company's investment in this partnership was sold in 2013 (see Note 8). Our opinion, in so far as it relates to amounts included from this partnership, is based on appropriate audit procedures we performed to satisfy ourselves.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2013 and 2012 consolidated financial statements, referred to above present fairly, in all material respects, the financial position of THE CONNEAUT TELEPHONE COMPANY and its wholly owned subsidiary as of December 31, 2013 and 2012, and the results of their operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as whole. The supplemental information presented on pages 24 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

July 22, 2014

Demarchi & Associates

BALANCE SHEETS

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
<u>Current Assets:</u>		
Cash on Hand		
Cash in Bank		
Subtotal		
Accounts Receivable - Telecommunications		
(Less allowance of \$49,316, and \$60,184)		
Accounts Receivable - Other		
Materials and Supplies Inventory		
Prepaid Expenses		
Prepaid Federal Income Tax (Note 7C)		
Unamortized Refinancing Cost (Note 2B)		
Total Current Assets		
<u>Non-Current Assets:</u>		
Deferred Tax Regulatory Assets (Notes 2A and 7A 1)		
Unamortized Refinancing Cost (Note 2B)		
Total Non-Current Assets		
<u>Other Assets:</u>		
Investment in Cellular Limited Partnership (Note 3B + 8)		
Investment in Rural Tel. Finance Corp. Certificate (Note 13)		
Total Other Assets		
<u>Plant, Property, and Equipment:</u>		
Plant in Service (Note 4)		
Less: Accumulated Depreciation and Amortization		
Net Plant in Service		
Add: Plant Under Construction		
Non-Operating Plant		
Net Plant, Property & Equipment		
 TOTAL		

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

[illegible]

STATEMENTS OF INCOME
 THE CONNEAUT TELEPHONE COMPANY
 and Wholly Owned Subsidiary
Years Ended December 31, 2013 and 2012

	2013	2012	Increase (Decrease)
<u>Operating Revenues</u> (Page 31)			
Local Network Services Revenue			
Network Access Services Revenue			
Long Distance Network Services Revenue			
Miscellaneous Revenue			
Less - Uncollectible Revenues			
Total Operating Revenues - Regulated			
<u>Operating Expenses</u> (Pages 32 and 33)			
Plant Specific Operations			
Plant Nonspecific Operations			
Customer Operations			
Corporate Operations			
Depreciation and Amortization			
Total Operating Expenses - Regulated			
<u>Operating Taxes</u>			
Federal Income Tax - Current Expense (Credit) (Note 7 B)			
- Deferred Expense (Note 7 B)			
Other Operating Taxes (Note 17)			
Total Operating Taxes - Regulated			
Operating Loss Before Interest - Regulated			
Less - Interest Expense on Long Term Debt			
<u>Operating Loss - Regulated</u>			
<u>Other Income (Expense) - Net</u> (Page 33)			
<u>Loss from Regulated Operations</u>			
<u>Nonregulated Income (Loss)</u>			
Net Income - Cellular (Page 24)			
Net Income - Internet Operations (Page 25)			
Net Loss - Cable Suite 541 (Page 27)			
Other Income & (Expenses) - Deregulated (Page 28)			
Total Nonregulated Net Income			
Loss before Extraordinary Income			
<u>Extraordinary Income</u> (Note 8)			
Gain on Sale of Partnership Interest			
<u>NET INCOME (LOSS)</u>			

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF RETAINED EARNINGS

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>BALANCE AT BEGINNING OF YEAR</u>		
Add: Net Income (Loss) for the Period (Page 3)		
Subtotal		
Less: Dividends on Preferred Stock (Note 9)		
Dividends on Common Stock		
Total Dividends		
<u>BALANCE AT END OF YEAR - CONSOLIDATED</u>		
• • • • •		
<u>BOOK VALUE PER SHARE (NOTE 10)</u>		
<u>EARNINGS (LOSS) PER SHARE (NOTE 11)</u>		
a) Before Extraordinary Income		
b) After Extraordinary Income		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash Received from Customers, etc.		
Interest, Dividends and Capital Gains - net		
Interest Paid		
Cash Paid to Suppliers, Employees and Relative Expenses		
Taxes Paid		
Net Cash Provided by Operating Activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Acquisition of Fixed Assets		
Acquisition of Plant Under Construction		
Distributions from Partnerships - Cellular		
Gross Proceeds From RSA#3 Sale		
Net Increase from RTFC Certificate		
Net Cash Provided (Used) by Investing Activities		
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from Capital Lease Financing		
Proceeds from RTFC Refinanced Loan		
Payoff of former RTFC Term Loan		
Principal Payments - RTFC Term Loans		
- RTFC Line of Credit		
- Capital Leases		
Payoff of Vehicles before Sale & Leaseback		
Net Cash Used by Financing Activities		
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>		
Cash and Cash Equivalents at Beginning of Year		
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (Cont'd)

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

Years Ended December 31, 2013 and 2012

	2013	2012
<u>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Net Income (Loss) (Page 3)		
Adjustments to Reconcile Net Income and Net Cash Provided by Operating Activities:		
Depreciation and Amortization		
Non-Cash - Partnership (Income) - Cellular		
Extraordinary Gain on Sale of RSA #3-Before Taxes		
Net Federal Income Tax Expensed Non-Cash		
Non-Cash - Loss on Vehicle Sale/leaseback		
Decrease in Receivables		
(Increase) in Prepaid Federal Income Tax		
(Increase) Decrease in Prepaid Items		
Amortization of Refinancing Costs-RTFC Note		
Decrease in Materials & Supplies Inventory		
Increase (Decrease) in Accounts Payable		
Increase (Decrease) in Advance Billings		
Increase in Accrued Taxes		
Increase in Accrued Dividends Payable		
Increase in Accrued Pension Contribution		
Increase (Decrease) in Other Accrued Expenses		
Pension Expense (Credit) - Non Cash		
Increase in Accrued Retirement Health Benefits-Non Cash		
Other Post Retirement Benefit Payments Made		
Increase (Decrease) Other Comprehensive Income		
Other Non-Cash Adjustments		
Total Adjustments		
<u>TOTAL CASH PROVIDED BY OPERATING ACTIVITIES</u>		

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES



The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)



2. NON-CURRENT ASSETS



The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

3. OTHER ASSETS

A. INTANGIBLE INTERNET CUSTOMER LIST



B. INVESTMENT IN CELLULAR LIMITED PARTNERSHIP



The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

4. TELEPHONE PLANT, PROPERTY AND EQUIPMENT

This consists of telephone (primarily regulated) plant in service, internet (non-regulated), and cable television (non-regulated), property, plant and equipment at cost, as follows:

TELEPHONE PLANT IN SERVICE

Land
Buildings
Digital Electronic Switching
(includes Capital Lease equipment)
Station Apparatus
Poles, Cables and Wire
Other Equipment, etc.
General Purpose Computers
Furniture & Office Equipment
Total Telephone Plant In Service

2013

2012

INTERNET PLANT IN SERVICE

(non regulated)
Internet - Switching Equipment
- Computers
- Furniture and Equipment
Total Internet Plant In
Service (non regulated)

Total Cost Basis Telephone Company

CABLE TELEVISION PLANT IN SERVICE

Head End Circuit & Building
Switching Equipment
Computers
Customer Premise Equipment
Total CATV Cost Basis

TOTAL COST BASIS

Less: Accumulated Depreciation
Telephone Company
Cable Television Company
Total

NET PLANT, PROPERTY & EQUIPMENT

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

5. PENSION PLAN



The following tables set forth the plan's funded status and amounts recognized in the Company's balance sheets at December 31, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Actuarial present value of benefit obligations		
Projected benefit obligation for service rendered to date		
Plan assets at fair value, primarily listed stocks and securities		
<u>Unfunded Accrued Pension Cost</u>		

The Segmented Interest Rates were used in determining the actuarial present value of the projected benefit obligation.

Under the Pension Protection Act of 2006, new rules for determining funding requirements were first used in Year 2008.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

5. PENSION PLAN (Cont'd)

An alternative amortization approach was used to amortize the unrecognized net obligations, i.e., a straight-line amortization over the average remaining service period of employees expected to receive benefits under the plan.

	<u>2013</u>	<u>2012</u>
<u>Projected Benefit Obligation: Reconciliation</u>		
Beginning Balance		
Service Cost		
Interest Cost		
Actuarial (Gains) and Losses		
Benefits Paid and Expenses		
Ending Balance		
<u>Fair Value Plan Assets: Reconciliation</u>		
Beginning Balance		
Actual Return on Plan Assets		
Employer Contributions		
Benefits Paid		
Actuarial Adjustment		
Ending Balance		
<u>Unfunded Accrued Pension</u>		
Net pension cost for 2013 and 2012 included the following components:		
Interest cost on projected benefit obligation		
Actual return on plan assets		
Net (gain) loss		
Net Periodic Pension Cost (Credit)		

ACCUMULATED OTHER COMPREHENSIVE INCOME

An analysis of Accumulated Other Comprehensive Income under FASB 158 follows:

Net Unrecognized Actuarial Gains and losses at 12/31/04	
Less Deferred Income Tax @34%	
Reclassified as Other Comprehensive Income 1/1/05	
Net Gains and (Losses) from 2005 to 2012	
Year 2013 (Loss)	
<u>Balance December 31, 2013</u>	

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS



The Conneaut Telephone Company

December 31, 2013

6. POSTRETIREMENT HEALTH CARE BENEFITS



The following tables set forth the plan's funded status and amounts recognized in the Company's balance sheets at December 31, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Retirees		
Other active plan participants		
Accumulated Benefit Obligation		
Accumulated Benefit Obligation		
Plan assets at fair market value		
<u>Unfunded Accrued Other</u> <u>Postretirement Benefits</u>		

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

6. POSTRETIREMENT HEALTH CARE BENEFITS (Cont'd)

Net Postretirement Benefit Cost for 2013 and 2012 included the following components:

	<u>2013</u>	<u>2012</u>
Service cost-benefits earned during Year		
Interest cost on accumulated benefit obligation		
Net Periodic Postretirement Benefit Cost		
Accrued Benefit Cost at beginning of Year		
Net Periodic Postretirement Benefit Cost		
Contribution (payments made)		
Adjustment for Employee Resignations		
<u>Unfunded Accrued Postretirement Benefit</u>		
<u>Cost, End of Year - Funded Status</u>		

The weighted average discount rate used in determining the present value of the accumulated benefit obligation and the health care cost trend rate (current and prospective) were three and five percent, respectively.

Increasing the weighted average health care cost trend rate 1% to 5% would increase both the accumulated postretirement benefit obligation as of December 31, 2013 and 2012 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended as follows:

<u>If Costs Increase to 5%:</u>	<u>2013</u>	<u>2012</u>
Accumulated Benefit Obligation increases by		
Postretirement Benefit Cost increases by		

Decreasing the weighted average health care cost trend 1% to 3% would decrease both categories as follows:

<u>If Costs Decrease to 3%:</u>	<u>2013</u>	<u>2012</u>
Accumulated Benefit Obligation decreases by		
Postretirement Benefit Cost decreases by		

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

7. INCOME TAXES AND DEFERRED TAXES

The Company uses different methods to account for Depreciation Expense, Postretirement Benefits, Pension Costs, and other items for financial reporting purposes than it does for income tax purposes. The differences between these two reporting methods result in future tax consequences which are provided for in Deferred Taxes on the Balance Sheet, in the financial statements.

In accordance with the provisions of FASB ASC 740 (formerly #109), the following are presented in their required detail:

- A. Components of Deferred Tax Assets and Deferred Tax Liabilities
- B. Components of Tax Expense for financial reporting purposes
- C. Reconciliation of expected and actual Tax Expense

A. 1. Components of Deferred Tax Assets:

Deferred tax regulatory asset FCC mandated
gross up to FASB ASC 740 of -
RSA #3 Investment
Capital Lease
Regulatory Asset
Total Deferred Tax Regulatory Asset

2013

2012

2. Components of Deferred Tax Liability:

- a) Non-current Deferred Tax Liabilities -
 - Telecommunications Plant - net diff.
 - RSA #3 Investment
 - Amortization of Intangible
 - OPEB (FASB #158)
 - Pension Costs (FASB #158)
 - Unamortized Lease
 - Net Operating Loss Carryover

Tax Rate

Consolidated Total Non-current
Deferred Tax Liabilities

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

7. INCOME TAXES AND DEFERRED TAXES (Cont'd)

	<u>2013</u>	<u>2012</u>
A. 2. b) <u>Deferred Tax Regulatory Liability</u>		
FCC mandated gross up of –		
Transition Adj. to FASB ASC 740		
OPEB costs (FASB #158)		
Pension cost (FASB #158)		
Amortization of Intangible		
Regulatory liability		
<u>Total Deferred Tax Regulatory</u>		
<u>Liability</u>		
c) <u>Deferred Tax Regulatory Adjustment Account</u>		
Deferred taxes and gross up –		
Transition Adj. to FASB ASC 740		
RSA #3 Investment		
Amortization of Intangible		
Pension cost (FASB #158)		
OPEB (FASB #158)		
Unamortized Capital Lease		
Regulatory Asset and Liability		
<u>Total Deferred Tax Regulatory</u>		
<u>Adjustment Account</u>		
B. <u>Components of Tax Expense for Financial</u>		
<u>Reporting Purposes:</u>		
Provision for Current Tax (Credit)		
Provision for Deferred Income Tax (Credit)		
<u>Total Income Tax Expense (Credit) for</u>		
<u>Financial Reporting</u>		

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

7. INCOME TAXES AND DEFERRED TAXES (Cont'd)

B. (Cont'd)

The foregoing Federal Income Tax Expense (Credit) is reported in these financial statements as follows –

Federal Income Tax -- Current -
 Regulated Operations
 Cellular Income
 Internet Operations
 Other Deregulated
 Cable Suite 541, Inc.
 Extraordinary Income
 Total Current Tax Expense (Credit)

Deferred Taxes –
 Regulated Operations
 Internet Operations
 Cellular Income
 Other Deregulated
 Cable Suite 541 Inc.
 Extraordinary Income
 Total Deferred Tax Expense (Credit)

Net Tax Expense (Credit)

C. Reconciliation of Expected and Actual Tax Expense:

Year 2013

Taxable Income Tax Rate

Pre-tax accounting book income and expected
 tax at statutory rate
 Book vs. tax timing differences – net

Total Taxable Income
 Income Tax Expense @34%
 Alternative Minimum Tax
 Provision for Deferred Tax Expense

Net Tax Expense for Financial Reporting in 2013

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Corneaut Telephone Company

December 31, 2013

7. INCOME TAXES AND DEFERRED TAXES (Cont'd)

C. (Cont'd):

<u>Year 2012</u>	<u>Taxable</u>		
	<u>(Loss)</u>	<u>Tax</u>	<u>Rate</u>
Pre-tax accounting Book income and expected tax at statutory rate			
Book vs. tax timing differences – net			
Total Taxable Income (Loss)			
Income Tax Expense			
Provision for Deferred Tax Expense			
<u>Net Tax (Credit) for Financial Reporting in 2012</u>			

8. EXTRAORDINARY INCOME

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

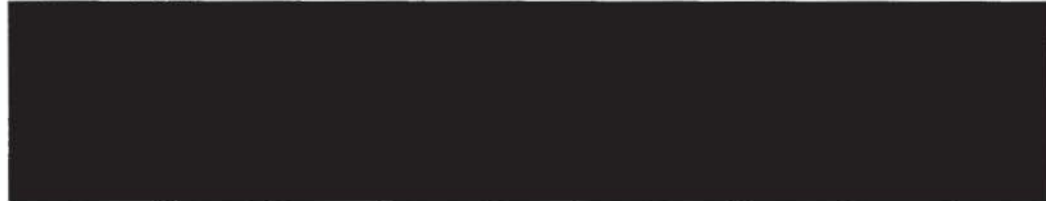
The Conneaut Telephone Company

December 31, 2013

9. DIVIDENDS ON PREFERRED STOCK



10. BOOK VALUE



11. EARNINGS (LOSS) PER SHARE



The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

12. OPERATING LEASES



13. NOTE PAYABLE - RTFC LONG TERM LOAN



The accompanying notes are an integral part of these financial statements.